

Message Text

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46

ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ADP-00 NEA-10 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15

STR-08 CEA-02 L-03 H-02 DODE-00 PA-03 USIA-12 PRS-01

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R 041507 Z JUN 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC 9106

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY LUXEMBOURG

AMEMBASSY OTTAWA

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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5. / GOVERNMENT FAILURE TO ASSIST BUSINSS RECOVERY/ CARLI STRONGLY CRITICIZED GOVERNMENT FOR FAILING TO MAKE GOOD ON PROMISE TO HELP BUSINESS BY ASSUMING PART OF PAYMENTS OF SOCIAL BENEFITS TO WORKERS PRESENTLY BORNE BY ITALIAN INDUSTRY. MEASURE WAS TO HAVE BEEN DOMESTIC COUNTERPART OF CREATION DUAL EXCHANGE MARKET AND WAS TO HAVE BEEN COMBINED WITH PRICE CONTROLS ON PRODUCTS OF MAJOR INDUSTRIES IN EFFORT TO RECONCILE RECOVERY OF PRODUCTIVITY WITH CONTROL OF INFLATION. IMPORTANCE OF PROPOSAL TO INDUSTRY CAN BE SEEN FROM FACT THAT COST OF ITALIAN LABOR HAS ALMOST REACHED LEVEL OF COMMUNITY UNCLASSIFIED

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PARTNERS. WHEN SOCIAL PAYMENTS TO WORKERS ARE EXCLUDED, HOWEVER, LABOR COSTS ARE LOWER AND PROVIDE A COMPETITIVE EDGE.

6. / INFLATION AND ECONOMIC RECOVERY/. CARLI CITED INFLATION

AS CENTRAL ISSUE FACED BY MAJOR INDUSTRIAL COUNTRIES SUFFERING FROM STORM OF INFLATION UNPRECEDENTED IN PAST TWENTY- FIVE YEARS. ON INTERNATIONAL FRONT, INFLATION BEGAN WITH GROWING WEAKNESS OF DOLLAR WHEN EXTERNAL INDEBTEDNESS OF US GREW FROM \$38 BILLION IN 1968 TO \$83 BILLION AT END 1972 AND CENTRAL BANK DOLLAR HOLDINGS INCREASED FROM \$17 TO \$62 BILLION. CARLI NOTED THAT IN FIRST QUARTER 1973 RATE OF ITALIAN PRICE INCREASES, SPURRED BY EXTERNAL COST INCREASES AND INTERNAL INFLATION, WAS AMONG HIGHEST IN INDUSTRIALIZED COUNTRIES. IMPACT WAS PARTICULARLY EVIDENT IN RAW MATERIALS SECTOR DUE TO INCREASED IMPORT PRICES.

7. CARLI OBSERVED THAT ECONOMIC SYSTEM HAD SHAKEN ITSELF OUT OF TORPID STATE AND RECOVERY WAS UNDERWAY. HE POINTED TO INCREASE IN INDUSTRIAL PRODUCTION OF 5 PERCENT IN FIRST QUARTER 1973 COMPARED TO AVERAGE LEVEL 1972 WHEN NEGATIVE EFFECT OF STRIKES IN METALMECHANIC SECTOR ARE EXCLUDED. INVESTMENT PERFORMANCE OF PRIVATE BUSINESS ALSO IMPROVED. INITIAL IMPULSE OF RECOVERY DERIVED FROM EXTERNAL DEMAND AND FROM INTERNAL DEMAND FOR STOCKS, LATTER OF WHICH WAS ACCELERATED IN ANTICIPATION OF INTRODUCTION OF VALUE- ADDED TAX ON JANUARY 1, 1973. POSITIVE IMPACT FROM PUBLIC SPENDING FOR SOCIAL INFRASTRUCTURE WAS MODEST.

8. PRESENT ECONOMIC RECOVERY WAS CHARACTERIZED BY OPPOSING FORCES: PROGRESS IN PRODUCTION ACCOMPANIED BY RAPID PRICE INCREASES. WARNING THAT NO CONOMIC SYSTEM COULD APPROACH FULL UTILIZATION OF CAPACITY WITHOUT SEVERE INFLATION PROBLEMS, CARLI URGED THAT SERIOUS CONSIDERATION BE GIVEN TO MORE EFFICIENT ALLOCATION OF RESOURCES IN PUBLIC AND PRIVATE SECTORS AND CITED TENDENCY OF GOVERNMENT TO CHANNEL RESOURCES INTO UNPRODUCTIVE AREAS SUCH AS TRANSPORTATION AND POSTAL INDUSTRIES AND PUBLIC SERVICES IN GENERAL. CARLI FIRMLY REJECTED IDEA THAT ITALY COULD ELIMINATE CURRENT ACCOUNT DEFICIT BY FURTHER DEVALUATION OF LIRA VIS- A- VIS COMMUNITY CURRENCIES AND STATED THAT DOMESTIC MONETARY AND FISCAL POLICIES WERE APPROPRIATE TOOLS FOR RECOVERY.

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9. REFERRING TO RECENT EXPERIENCE IN OTHER COUNTRIES WITH ADMINISTRATIVE WAGE AND PRICE CONTROLS, WHICH ON WHOLE HE JUDGED POSITIVELY, CARLI URGED CONSIDERATION OF SUCH CONTROLS, EVEN THOUGH ITALY LACKED SUITABLE ADMINISTRATIVE MACHINERY. HE ALSO PROPOSED USE OF FIDESHOULD BE ELECTIALLOWED TOLATER IF

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